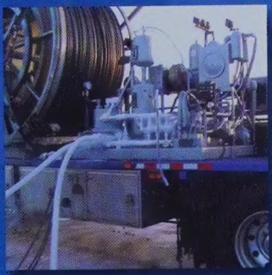
LEADER
ENERGY SERVICES LTD.



Safety

Innovation

Environment

LEADER WECOMES

all shareholders and interested parties to attend its annual general meeting on June 1, 2005 in the Cardium Room, Calgary Petroleum Club at 319 – 5 Avenue SW in Calgary, Alberta at 10:00 am.

PRESIDENT'S LETTER TO SHAREHOLDERS

To Our Shareholders: Significant progress was achieved in a number of areas by Leader Energy Services Ltd. ("Leader" or the "Company") during 2004. With record energy prices, budgets for the E&P companies were magnified, resulting in activities never seen before in the service sector. Our staff worked diligently to maintain the premium quality of service that our customers have come to expect.

Needless to say the most noticeable event for the Company last year was the business combination of Leader and Pd&e Resources Services Corp (Pd&e) in October 2004. This transaction was approved by an overwhelming majority of Pd&e shareholders. Post-transaction Leader was able to more than double its fleet of flameless nitrogen pumpers, and add flameless hot oilers, a steamer, and a boiler to its complement of flameless services.

LEADER ENERGY SERVICES LTD.

PRESIDENT'S LETTER TO SHAREHOLDERS

In October we indicated Leader still needed to expand its fleet of equipment in order to succeed in executing its immediate and long-term goals of providing its customers with state of the art equipment and technology.

In December 2004 we announced our intent to raise up to $5 million privately by way of an equity offering and $2 million by way of a Short Form Offering Document (SFOD). These offerings were significantly oversubscribed and by February 2005 we had successfully raised $10 million by private placement and $2 million by way of SFOD. The net proceeds will be used to increase our fleet of equipment and lower a portion of our long-term debt.

Since our inception in March 2001 and delivery of Leader's first coiled tubing units in November 2001, our goal has been to be a niche provider of well stimulation services. Leading up to our recent financings the Company was turning down one in three jobs due to a shortage of equipment.

By the third quarter of 2005 we will have invested a significant amount of the proceeds raised in our recent equity offerings in new equipment. Our coiled tubing and nitrogen pumping capacity will expand from 4 to 6 units and from 5 to 10 units respectively. With the additional equipment, Leader will be in an excellent position to meet the needs of our constantly growing list of customers, which now stands at more than 100. Our service and product development will always be guided by our customers' demand for innovation, safety and efficiency at a competitive price.

Our fleet of equipment is specialized, which gives Leader some distinct advantages. Our patent-pending coiled tubing / N_2 pumping units (combination units) are popular with customers completing shallow gas projects where completions are done with coiled tubing as opposed to jointed pipe. This is commonly referred to as a "rig-less" completion, which requires fewer personnel. Our medium-depth trailer-mounted coiled tubing unit is designed with the ability to travel on 75% road bans while carrying 3,100 meters of 1 1/4" pipe. This feature is very advantageous during spring break up when activity levels typically slow down and larger coiled tubing units are not able to move due to weight restrictions on highways. Leader presently operates the largest fleet of flameless body-load nitrogen pumpers capable of carrying 7,700 m^3 (standard cubic meter) of nitrogen outside of road ban season and 3,000 m^3 on 75% road bans. Each of these units is equipped to pull 7,700 m^3 pup trailers, which is an effective way of saving our customer transportation costs associated with larger jobs that require additional nitrogen.

Due to customer demand, a deeper coiled tubing unit is being added to our fleet that will be able to operate to depths up to 5,000 meters with 1 1/2" coil. One of the new flameless nitrogen pumpers coming into service has the capability of pumping 170 m^3 / minute at 10,000 psi / 70 MPA and will work with the deeper coiled tubing unit. These units are expected to be operational by the last half of the third quarter.

Our equipment has been designed to promote safer operating and environmentally responsible practices. Since the area around a wellhead is classified as a highly explosive and flammable atmosphere, "fired" equipment must be located a significant distance away from the well bore when operating. Our heat-delivery systems capture excess energy from engine exhaust, water coolant and all usable horsepower, eliminating the need to heat batch fluids with an open flame. Leader's entire fleet of flameless nitrogen pumpers is safer, more efficient and cleaner than conventional fired nitrogen pumpers. Our flameless boiler provides a safer, more efficient and environmentally responsible method of heating water. Boilers provide a steam supply for drilling and service rigs. Only our boilers can be placed 12 meters from a wellhead.

Management is committed to increasing the range of innovative, value-added products and services that Leader provides, ultimately creating future growth.

During prolonged periods of high activity levels it is easy to forget about the importance of a strong balance sheet and the need for experienced personnel. Our intent is to finance future growth through organic cash flows and the exercise of existing convertible instruments. Leader will strive to maintain a strong and conservative balance sheet while continuing its product development program.

PRESIDENT'S LETTER TO SHAREHOLDERS

As the demand for qualified field personnel has reached new levels in the oilfield service sector, Leader provides competitive compensation, ensures employees have the opportunity to advance and that work rotations provide a better quality of life. We recognize that quality of work life is paramount in an active energy sector.

In 2004 Leader began the development and implementation of a Corporate Safety Program. As part of that process a formal Safety and Procedures Manual was introduced in early 2005 to ensure we would conduct all operations safely, and to prevent injuries to persons and damage to property and the environment. Every practical step is taken to build and maintain a safe and healthy work place. People are our most important asset and their safety is our greatest responsibility. Leader will be seeking its Certificate of Recognition (COR) in 2005. A Certificate of Recognition is given to employers who develop health and safety programs that meet established standards. Certificates are issued by Certifying Partners and are co-signed by Alberta Human Resources and Employment.

OUTLOOK

It is our belief that global oil demand will not decline for the foreseeable future and that a large number of major producers have limited excess production capacity.

For three decades the world has used more oil than it has found; 70% of current oil production comes from fields found more than 30 years ago. Our own natural gas industry, a "continental" commodity, is working harder just to keep pace with demand while supplies of conventional natural gas diminish.

Here in Canada, the CAODC is forecasting that 24,205 wells will be completed during 2005 – a 14% increase over 2004 and a new industry record. Analysts predict more than 17,000 of the wells drilled this year will be natural gas.

The popularity of natural gas continues to grow because of its environmental advantages and low cost relative to other fuels. As conventional oil reserves decline around the world, industry brings on frontier reserves and moves into the realm of unconventional sources like the oilsands. However, it takes 0.8 Mcf of natural gas to produce one bitumen barrel of heavy oil, placing a significant and growing strain on existing natural gas production.

In order to capitalize on our view of the industry's search for large sources of natural gas, Leader has concentrated the majority of its equipment in Grande Prairie, Alberta. The Company recently expanded geographically to

Hinton, Alberta and is considering Ft. St. John, British Columbia to expand operations northward. Forecasted natural gas related drilling activity suggests that our expansion program will support future growth and position the Company to deliver strong financial and operational performance.

During 2005 Leader will undertake the largest capital expansion program in its four-year history, with particular emphasis on expanding its coiled tubing and flameless nitrogen pumping capacity for well stimulation services. Coiled tubing is one of the fastest growing oil field services due to its numerous applications. The Company operates the largest fleet of flameless nitrogen pumpers in Canada and will continue its organic growth to increase the range of service offerings in additional locations.

I would like to take this opportunity to express my sincere gratitude to our employees, customers, directors, and investors for a successful year. While our financial results for 2004 show marked improvement, we truly look forward to an excellent year ahead.

Respectfully submitted,

ROD HAUSER
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

LEADER ENERGY SERVICES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis dated April 22, 2005 focuses on key statistics from the financial statements and pertains to known risks and uncertainties relating to the oilfield services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the years ended December 31, 2004 and 2003 should be read in conjunction with the consolidated financial statements and related notes and material contained in other parts of the annual report. Notes referred to herein relate to these financial statements.

OVERALL PERFORMANCE

2004	2003		CHANGE $	CHANGE %
$9,446,742	$6,257,497	Revenue	$3,189,245	51
1,514,745	499,676	Cash Flow (1)	1,015,069	203
1,040,178	(322,584)	Net Income	1,362,762	422

(1) Cash flow is defined as "Cash provided by operating activities before changes in non-cash working capital." Cash flow and cash flow per share are measures that provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Cash flow and cash flow per share are not measures that have any standardized meaning prescribed by Canadian GAAP, and accordingly may not be comparable to similar measures used by other companies.

The results of operation from the year ended December 31, 2004 reflect the impact of the business combination that occurred October 1, 2004. In this transaction Pd&e and its wholly owned subsidiary Proheat Hot Oilers Corp. (Proheat) were acquired by Leader in a non-arm's length transaction. As Leader was a privately held and operated company, this year also represents the first year its audited financial information has been reported publicly. On January 1, 2005 the Company almalgamated with its wholly owned subsidiaries Pd&e and Proheat and continued as Leader Energy Services Ltd.

Prior to the business combination Leader provided coiled tubing and nitrogen pumping services from locations in Grande Prairie and Red Deer, Alberta. The Company operated four coiled tubing units, two of which are nitrogen-coiled tubing combination units, as well as two nitrogen pumping units and two nitrogen bulk transport units. The nitrogen skid units that are part of the combination units (patent pending) give Leader a competitive edge in the area of nitrogen and coiled tubing services, particularly with longer-term projects.

Established in 2001, the Company's strategic focus was in response to a growing need for intermediate class one and two coiled tubing and nitrogen services in Northern Alberta and Northeastern BC. Since 2001 the Company has been able to

establish a niche market by providing efficient, low cost well completion and servicing programs to oil and gas producers. This was accomplished by designing and developing equipment that could perform multiple services while on location, like the nitrogen and coiled tubing combination units. As well, the ability to design and assemble the equipment internally helped to control capital costs by eliminating markups paid to third party manufacturers, thereby enhancing cash flow, reducing finance costs and improving the overall financial condition of the Company. Designed with the customers in mind, a majority of the equipment operated has a smaller footprint on location than some of our larger competitors and consequently ground disturbance is reduced. A smaller footprint is especially important when working on locations within confined spaces or environmentally sensitive areas. All these factors helped the Company keep price structures in line with the competition while keeping operating costs as low as possible.

Business growth in 2004 prompted the Company to open an additional station in Red Deer in order to exploit a growing need for nitrogen services in central Alberta. In the past, due mostly to shallow gas plays of less than 1,000 meters, well stimulation projects relied heavily on service units that used compressed air to clean out a well to get it flowing again. A growing trend for safer work practices saw a call for more nitrogen service units to clean out wells, especially when hydrocarbons are present. Nitrogen, being an inert gas, is non-flammable and provides excellent lifting properties as it expands 92 times when vaporized. The move resulted in a 120-well project for a major oil and gas producer that kept a majority of the equipment that the Company moved into the area busy throughout the summer.

Several other factors affected the overall performance of the Company this past year, the most significant being the business combination with Pd&e which saw the nitrogen fleet increase from two to five units during the fourth quarter. The additional revenue generated by the three new units accounted for 16.8% of the annual revenue. High commodity prices due to a growing demand for oil and gas around the world saw the number of wells drilled rise to 21,594, up almost 9% from a year earlier. This, combined with equipment shortages pushed activity levels up, favorably impacting the overall financial results of the Company.

Winter of 2004 saw the Company engaged in more project work in northern BC relative to 2003. Daily minimums from project work bolstered results as E&P companies were concerned that equipment shortages would limit completions activities. Consequently, producers were willing to pay standby charges if it meant having the equipment available when needed. In almost all of the cases, project work was completed by employing our combination units in what is called a "rig-less" completion which eliminates the need for both a coiled tubing unit and nitrogen unit on location. This has proven to be an efficient and cost effective way of completing shallow gas well projects.

Even though the first and fourth quarter of 2004 resulted in the Company setting new highs for activity and net income, the second and third quarter saw some months set new lows over comparative periods. Weather was the Company's nemesis during these quarters. Inclement weather accompanied by at least one heavy rainfall each week prompted E&P companies to postpone completions and servicing programs one week after another. This had its greatest impact in northern Alberta, where most of the Company's equipment was concentrated. The impact of these delays was mitigated during the fourth quarter after weather conditions improved and many of the projects previously delayed were finally completed.

The flameless technology aspect of our business continues to grow as we seek new applications for the technology. The flameless hot oilers, being the first flameless service developed by Pd&e, came into their own as 2004 proved to be a year of refinement for the maintenance and operation of the two units.

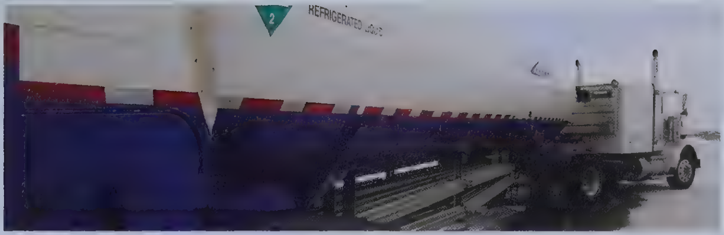
At year end, the patent for this system was still in a pending status with expectation of being granted full patent protection during the first half of 2005. The flameless steamer, which has been in service since mid-third quarter, has seen a very mild level of activity since being commissioned. The biggest contributing factor has been securing a steady flow of service work which in turn has made it difficult to keep staff on hand to operate the unit when jobs do become available. Development of the flameless boiler, of which we had hoped to have a prototype working during the first quarter of 2005, continues as recent tests have resulted in modifications that will improve the efficiency of the unit. We hope to have several of these units available for the coming winter.

Overall, the last 3 years have been spent building a solid foundation to get the Company into a position to gain critical mass and growth. The catalyst for growth will be the $12 million (see table on following page) in equity raised between December 2004 and February 2005. With the monies raised equipment capacity is expected to more than double by the end of

	2004	2003	2002
Revenue	$ 9,446,742	$6,257,497	$ 2,852,930
Net Income (Loss)	1,040,178	(322,584)	(1,184,645)
Earnings per Share (Basic)	0.131	(0.066)	(0.25)
Earnings per Share (Diluted)	0.127	(0.066)	(0.25)
Cash Flow from Operations	1,514,745	499,676	(613,721)
Cash Flow from Operations per Share (Basic)	0.191	0.102	(0.129)
Cash Flow from Operations per Share (Diluted)	0.185	0.102	(0.129)
Total Assets	16,339,224	7,092,196	6,559,643
Long Term Debt [1]	5,077,365	4,061,611	7,595,580
Shareholders Equity / (Deficit)	8,804,351	890,798	(1,755,901)

(1) Includes current portion of long term debt.

selected annual information



2005 with most of the revenue growth coming from nitrogen services. With this larger fleet we will be able to expand operations geographically, especially into the foothills area where we currently have a minimal presence.

SELECTED ANNUAL INFORMATION

With a majority of the equipment not being commissioned until late 2001, 2002 represents the first full year of field operations for the Company. 2002 itself was a lackluster year for the energy sector as the events of September 11, 2001 rolled into the first quarter curtailing drilling activity due to market uncertainty and the contributing factor to the Company's poor performance in 2002. The growth of the Company over the next two years highlights a trend of increasing commodity pricing due to growing world demand and consequently increasing demand for oilfield services in western Canada. This trend is expected to continue throughout 2005, 2006 and perhaps into 2007.

The earnings per share numbers reiterate the same trend as the Company spent its first two years establishing a name in the marketplace as a respectable oilfield services contractor. The marketing effort started to pay off in 2004 as investors benefited from a $0.197 improvement in basic earnings per share between 2003 and 2004. This is after accounting for the additional stock issued due to the business combination and equity financing during the fourth quarter.

Total assets saw very little change between 2002 and 2003 due mostly to the fact that in 2003 there were fewer additions to property and equipment as most of the equipment was constructed and delivered during 2002. Capital expansion was initially funded from private investors via debentures and shareholder loans that carried interest rates of 15% and 10% respectively. During 2002, private investors waived all interest charges against the Company. At the end of 2003, private investors holding over $3 million in debentures and shareholder loans converted the debt to equity which accounts for a majority of the decrease in long term debt and the improvement in shareholder equity between 2002 and 2003. Debt took a step up in 2004 after the business combination with Pd&e which brought with it approximately $1.5 in capital lease obligations with a major financial institution.

During 2004, equity increased by a factor of ten due to the completion of three large transactions and net income earned during the year. One of the contributing factors to the increase is the value assigned to the Pd&e shares on completion of the business combination, effective October 1, 2004, which added $1.9 million to equity before share issue costs. As previously noted, this transaction added 3 newly built nitrogen pumping units, two flameless hot oilers, one flameless steamer and one boiler to the existing fleet. The Company also completed its first tranche of $12 million in equity financing just prior to the year end which produced $4,059,125 in additional funding for the 2005 capital expansion program, before related costs. Finally, the early conversion of $1.2 million in debentures at year end rounded out the changes in equity for the year.

LIQUIDITY, CAPITAL RESOURCES AND USE OF PROCEEDS

At December 31, 2004 the Company held cash and cash equivalents of $3,871,372 and had a positive working capital position of $4,197,155 (excludes current portion of long term debt). As the forecasted number of wells to be drilled in the Western Canadian Sedimentary Basin is expected to rise by 14% during 2005, when combined with the effects of the 2004 business combination and 2005 fleet expansion the Company's short term working capital requirements will be fulfilled. The Company has mitigated adverse short term financing requirements by establishing an operating line with its main bank of $1.5 million of which $841,000 was still available to the Company at year end.

Table I, a 5 year continuity schedule, highlights the contractual obligations of the Company over the next five years as of December 31, 2004. Capital lease obligations at year end were held by three financial institutions. $1.4 million carried a per annum interest rate of 6.4% over a four year term that matures June 2009. Monthly payments on the obligation total $30,277 including principle and interest. $2.0 million carried a per annum interest rate ranging from 9.4% to 9.8% over a four year term maturing between December 2007 and February 2008. Monthly payments on the obligation total $64,243, including principle and interest. The balance of the finance obligations totaling $0.22 million carried per annum interest rates ranging from 7.0% to 7.75% and maturing at various times between July 2005 and 2007. All finance obligations hold security on the specific assets and subordinated general assignment on all other assets within the Company.

On January 25, 2005 the Company renegotiated the $2.0 million in finance obligations with another financial institution and in doing so reduced the interest rate from 9.4% to 5.9%, thereby reducing the monthly payment by $15,376 to $48,867 and returning $184,512 in annual cash flow back to the Company.

Other contractual obligations contain royalty payments to the inventor of the flameless hot oilers, which carry a $1,250 monthly payment for each unit put in production. The Company currently operates two of these units.

Cash and cash equivalents include $3.5 million in funding, held in short term deposits, raised as part of $12 million (Table II) in equity financing

CONTRACTUAL OBLIGATIONS (TABLE I)

			Payments Due by Period		
	Total	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Capital Leases	$3,634,239	$1,252,948	$2,390,478	$ 522,037	$ —
Operating Leases	604,751	304,734	300,017	—	—
Subordinated Debentures	1,026,916	—	403,657	519,259	104,000
Due to Shareholder	416,210	—	416,210	—	—
Other	570,000	30,000	60,000	60,000	420,000
Total Contractual Obligations	$ 6,252,116	$1,587,682	$3,570,362	$1,101,296	$524,000

completed during the first quarter of 2005. These monies have been earmarked for the Company's 2005 capital expansion program aimed at increasing our fleet of coiled tubing and nitrogen pumping units as well as the introduction of a fleet of flameless boilers to the services we provide. The working capital surplus of $86,642 created by the equity issue will be used to pay for other costs associated with the financing.

As part of the financing arrangement (Table I and II) subordinated debentures and a shareholder loan totaling $1,443,126 and carrying per annum interest rates of 10% to 15% was retired before the end of the first quarter in 2005. Interest of $440,232 accrued since January 2003 also formed part of the final payment totaling $1,883,358. Interest charges are reduced by $16,304 per month, and annualized cash flow of $195,648 is returned to the Company.

The oil and gas services industry is subject to seasonal fluctuations in activity levels, especially during the first and second quarter of any calendar year. These seasonal changes, often referred to as winter drilling and spring breakup, either augment or draw down on the cash resources of the Company. The Company's cash position at any point in time is also dependent on weather conditions, which turned into a major hurdle during the second and third quarter of 2004. It has been our experience and it is management's opinion that with the activity levels the industry is currently experiencing, our recent equity issue and growth plans for the Company that all cash flow requirements will be met.

COMMITMENTS

Pursuant to a patent assignment from the inventors of the Company's flameless hot oilers we are committed to paying a monthly royalty of $1,250 for each hot oiler in service for a 20-year duration. The Company is also committed to pay a royalty to the inventors for the development of a nitrogen skid unit used on some of the coiled tubing units. A payment of $125 is required for every day that a Nitrogen skid unit is in operation for a 20-year duration.

USE OF PROCEEDS (TABLE II)

	Equity Allocation	Delivery / Execution
Coiled tubing and nitrogen equipment	$ 5,987,500	Aug – Sept 2005
Flameless equipment	997,500	Nov 2005
Support equipment	2,085,000	Various
Debenture and shareholder loan retirement	1,883,358	Mar 2005
Subtotal	$10,953,358	
Proceeds on issue ($12 million net of brokerage fees)	11,040,000	
Working Capital	$ 86,642	

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2004 the Company incurred the following transactions with related parties.

The Company issued 1,278,518 shares at a price of $1.64, before block discount, to directors and officers of the Company pursuant to the business combination with Pd&e.

The Company recorded $225,000 in advances from 2003 for the provision of administrative services including rent, accounting services and various other office and administrative costs expected to be rendered on behalf of Pd&e during 2004.

The Company recorded $195,658 of interest to a shareholder of the company. $154,037 related to subordinated debentures and $41,621 related to the shareholder's loan.

The Company incurred legal fees of $49,842 for services provided by a firm of which a director of the Company is a partner. At year-end, $23,102 in legal were payable to this firm.

The Company paid consulting fees of $10,841 to a company of which a director of the Company is the principle.

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similr to those negotiated with third parties. All other transactions not in the ordinary course of business operations have been measured at the carrying amount.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates of profitability, cash flows and other relevant assumptions for the amounts recorded for the amortization of property and equipment and intangible and the valuation of property and equipment, intangible assets, and the recognition of future tax assets. By their very nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of future periods could be material. The effect on the financial statements resulting grom a revision in estimates, if any, will be accounted for prospectively.

Property, plant and equipment are recorded at cost less related investment tax credits and government grants. The equipment is depreciated over what management estimates to be the expected useful life of such equipment in the industry that the Company operates. Intangibles are amortized on a basis equal to those prescribed by law or agreed to by unrelated parties. Cost recovery is tested on an annual basis and for the year ended December 31, 2004 management is of the opinion that future cash flows will be sufficient enough to recover the cost of equipment and intangibles. Based on these estimates, impairment or write-downs will not be required.

The Company uses the fair value method to account for stock based compensation plans and as such records compensation expense on options issued to directors, employees and

consultants as they vest. Future compensation expense for the granting of stock based compensation expense is based on management's estimates of expected stock price volatility and the risk-free interest rate, actual results could differ.

FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the manner in which the Company operates exposes the Company to interest rate and credit risk. The Company manages its exposure to this risk by operating in a manner that minimizes its exposure to the extent practical.

INTEREST RATE RISK MANAGEMENT

The Company's short-term borrowings are based on floating rates and subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. Interest on fixed rate debt varied between 7% and 15% during the year. Subsequent to the year end debt carrying interest rates of 10% and 15% were retired.

As at December 31, 2004, the increase or decrease in net income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $6,590 (2003 - $8,150). The related disclosure regarding the debt instruments are included in Note 6 of these consolidated financial statements.

CREDIT RISK

A significant portion of the Company's trade accounts receivable is from companies in the oil and gas industry and as such, the Company is exposed to all the risks associated with that industry. As at December 31, 2004, six (2003 - four) companies accounted for 45% (2003 - 49%) or the total accounts receivable. Of the revenue earned 50% (2003 - 44%) was earned from four (2003 - four) customers. All of the Company's cash is held at one institution and as a result of this and the nature of its operations, the Company has concentration of credit risk.

FAIR VALUE RISK

The Company has not disclosed the fair value of its subordinated debentures and amounts owing to shareholders as these transactions are with related parties and there is no reliable fair value information readily available.

OTHER

Additional information for the Company can be found on SEDAR at www.sedar.com or on the Company web site at www.leaderenergy.com. The number of common shares outstanding at the date of this Management's Discussion and Analysis was 21,499,846 which does not include 1,802,000 in unexercised stock options.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Leader Energy Services Ltd. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgments and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

BDO Dunwoody LLP has been appointed as the external auditors of the Company and, in that capacity they have examined the financial statements for the years ended December 31, 2004 and 2003. The Auditor's Report to the shareholders is presented herein.

ROD HAUSER
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

JIM ASHBAUGH, CMA
VICE PRESIDENT FINANCE AND
CHIEF FINANCIAL OFFICER

AUDITOR'S REPORT

LEADER ENERGY SERVICES LTD.
(FORMERLY LEADER ENERGY SERVICES CORP.)

We have audited the consolidated balance sheets of Leader Energy Services Ltd. (formerly Leader Energy Services Corp.) as at December 31, 2004 and December 31, 2003 and the statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants
Calgary, Alberta
April 5, 2005

CONSOLIDATED BALANCE SHEETS

As at December 31	*2004*	*2003*
Assets		
Current		
Cash	$ 3,871,372	$ —
Accounts receivable	2,614,116	1,603,937
Prepaid expenses and deposit	169,175	54,545
Due from related party (Note 13(b))	—	28,434
	6,654,663	1,686,916
Deferred charges (Note 8)	29,749	35,800
Property and equipment (Note 4)	9,094,172	5,369,480
Intangible assets (Note 5)	210,640	—
Future taxes (Note 11)	350,000	—
	$16,339,224	$7,092,196
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	$ —	$ 5,083
Bank loan (Note 6)	659,000	815,000
Accounts payable and accrued liabilities	1,733,266	1,069,704
Deferred revenue	65,242	250,000
Current portion of obligations under capital lease (Note 7)	1,003,380	1,143,838
	3,460,888	3,283,625
Obligations under capital lease (Note 7)	2,630,859	1,374,646
Subordinated debentures payable (Note 8)	1,026,916	1,026,916
Due to shareholders (Note 9)	416,210	516,211
	7,534,873	6,201,398
Share capital (Note 10(b))	12,319,172	3,671,305
Share subscriptions (Note 10(c))	1,527,596	—
Contributed surplus	7,519	7,519
Deficit	(5,049,936)	(2,788,026)
	8,804,351	890,798
Commitments (Note 12)		
	$16,339,224	$7,092,196

On behalf of the Board:

Rod Hauser, Director

Richard Skeith, Director

"The accompanying notes form an integral part of these consolidated financial statements."

STATEMENTS OF OPERATIONS AND DEFICIT

For the year ended December 31	*2004*	*2003*
Revenue	$9,446,742	$6,257,497
Expenses		
Operating	6,222,817	4,432,201
General and administrative	1,396,313	1,102,465
Interest on long-term debt	302,599	341,432
Interest on capital lease obligations	241,630	200,479
Amortization	583,317	506,424
	8,746,676	6,583,001
Income (loss) from operations	700,066	(325,504)
Other (income) loss		
Administrative fees (Note 13(c))	(225,000)	(50,000)
Loss on disposal of assets	88,888	47,080
	(136,112)	(2,920)
Income (loss) before income taxes	836,178	(322,584)
Future income tax recovery (Note 11)	204,000	—
Net income (loss) for the year	1,040,178	(322,584)
Deficit, beginning of year	(2,788,026)	(2,465,442)
Premium on the acquisition of Pd&e (Note 3)	(2,966,088)	—
Conversion inducement of debentures (Note 10(c))	(336,000)	
Deficit, end of year	$(5,049,936)	$(2,788,026)
Earnings (loss) per common share – basic	$ 0.131	$ (0.066)
Earnings (loss) per share - diluted	$ 0.127	$ (0.066)
Weighted average number of shares outstanding –basic	7,925,114	4,894,367
Weighted average number of shares outstanding - diluted	8,183,481	4,894,367

"The accompanying notes form an integral part of these consolidated financial statements."

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31	*2004*	*2003*
Cash flows from operating activities		
Net income (loss) for the year	$1,040,178	$(322,584)
Adjustments for:		
Amortization	583,317	506,424
Amortization of deferred charges	6,362	52,286
Loss on disposal of assets	88,888	47,080
Non-cash interest	—	216,470
Future taxes	(204,000)	
	1,514,745	499,676
Change in non-cash working capital balances		
Accounts and other accrued receivables	(689,460)	(964,398)
Prepaid expenses and deposit	(112,580)	5,112
Accounts payable and accrued liabilities	243,063	458,270
Deferred revenue	(184,758)	250,000
Future taxes	(146,000)	—
	625,010	248,660
Cash flows from investing activities		
Additions to property and equipment	(789,830)	(408,023)
Proceeds on disposal of property and equipment	162,048	133,000
Cash acquired on acquisition (Note 3)	906,276	—
	278,494	(275,023)
Cash flows from financing activities		
Bank loan	(156,000)	490,000
Subordinated debentures payable	—	490,616
Repayments of obligations under capital lease	(661,159)	(927,539)
Issue of share capital, net of share issue costs	3,769,847	(4,988)
Amounts paid to related party	120,264	(28,434)
Advances from (to) shareholders	(100,001)	(51,174)
	2,972,951	(31,519)
Increase (decrease) in cash	3,876,455	(57,882)
Cash (bank indebtedness), beginning of year	(5,083)	52,799
Cash (bank indebtedness), end of year	$3,871,372	$(5,083)
Supplemental Information		
Interest paid	$327,764	$325,441

"The accompanying notes form an integral part of these consolidated financial statements."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Leader Energy Services Ltd. (formerly Leader Energy Services Corp.) (the "Company" or "Leader") was incorporated on April 20, 1998 under the Business Corporations Act (Alberta). On October 1, 2004, the Company acquired Pd&e Resource Services Corp., a publicly traded company, and commenced trading on the TSX Venture Exchange under the symbol LEE. The Company is engaged in the stimulation of oil and gas wells in Western Canada. On January 1, 2005 the Company amalgamated with its wholly owned subsidiaries Pd&e Resource Services Corp. and Pro Heat Hot Oilers Corp. and continued as Leader Energy Services Ltd.

During the year, the Company reorganized its share capital whereby the issued common shares were split on a basis of 8,236 common shares for each share issued and outstanding. Upon completion of the acquisition of Pd&e Resource Services Corp. the Company rolled back its common shares on a ratio of one common share for each four common shares outstanding. The number of common shares, common share options, warrants, debenture conversion terms and common share prices and per share calculations have been restated to reflect this reorganization.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the date of acquisition. All significant intercompany transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term money market investments with maturities of three months or less.

(c) Deferred charges

Deferred charges are related to the financing charges for the subordinated debentures per Note 9, and are to be amortized over the term of the debentures.

(d) Property and equipment

Property and equipment are recorded at cost. Amortization is based on the estimated useful life of the asset and is determined using the indicated method with half of the amortization taken in the year of acquisition, at the following annual rates:

Coil tubing units	15 year straight line
Nitrogen units	15 year straight line
Flameless equipment	15 year straight line
Spare equipment	15 year straight line
Nitrogen bulk trailers	15 year straight line
Coiled tubing inventory	2 year straight line
Coil tubing stands	20% declining balance
Shop tools and equipment	20% declining balance
Down hole tools	20% declining balance
Tractors	30% declining balance
Computer equipment	30% declining balance
Office furniture	20% declining balance
Leasehold improvements	Straight line over the term of lease

(e) Financial instruments

The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant credit or interest rate risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise disclosed.

(f) Future income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets and unused tax losses are recognized to the extent that they are more likely than not to be realised.

(g) Revenue recognition

The Company's services are generally sold based upon purchase orders or contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services and equipment rentals are rendered and only when collectibility is reasonably assured. Revenue collected in advance of rendering the service or renting the equipment is deferred to a future period.

(h) Measurement uncertainty

The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates of profitability, cash flows and other relevant assumptions for the amounts recorded for the amortization of property and equipment and intangibles and the valuation of property and equipment, intangible assets, and the recognition of future tax assets. By their very nature, these estimates are subject to measurement uncertainty and the effect of changes on the consolidated financial statements of future periods could be material. The effect on the financial statements resulting from a revision in estimates, if any, will be accounted for prospectively.

(i) Stock-based compensation plan

During the year the Company adopted a stock-based compensation plan as described in Note 10. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the share purchase option, the associated amount is reclassified from contributed surplus to share capital. Consideration paid by employees upon exercise of share purchase options is credited to share capital.

(j) Earnings per share

The Company adopted the treasury stock method of reporting earnings per share amounts in the year. Basic earnings (loss) per common share are computed by dividing earnings from operations by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(k) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization is provided for over the estimated useful life as follows:

	Amortization Method	*Rate*
License	Straight-line	20 years
Patent	Straight-line	21 years

(l) *Prepaid expenses and deposits*

Prepaid expenses and deposits are operating supplies and spare parts that are carried at the lower of average cost and replacement cost.

3. Business Combination

The consolidated balance sheet reflects the business combination with Pd&e Resource Services Corp. ("Pd&e") a public company, whereby all of the issued and outstanding shares of Pd&e were acquired by Leader for consideration of 3,965,870 common shares at a deemed price of $1.64 per share. The acquisition has been accounted for using the purchase method with the purchase price being allocated using the carrying amounts of the assets and liabilities of Pd&e, as Pd&e is a related party in that Pd&e is controlled by common officers and directors of Leader and there was significant ownership of each company by this group prior to the transaction.

The purchase price has been allocated as follows:

Cash acquired	$ 906,276
Current assets	423,314
Current liabilities	(420,448)
Working capital surplus	909,142
Intangibles	219,064
Property and equipment	3,565,191
Obligations under capital lease	(1,581,464)
Convertible debentures	(1,141,822)
Equity component of convertible debentures	(58,178)
Carrying values, net assets acquired	$ 1,911,933
Purchase price- value of shares issued [1] (Note 10)	$ 4,878,020
Acquisition costs	107,327
Premium on the acquisition of Pd&e charged to deficit	(3,073,414)
Total consideration	$ 1,911,933

(1) A block discount of 25% was applied to the shares issued in this transaction

4. Property and Equipment

	December 31, 2004			December 31, 2003		
	Accumulated Cost	Net Book Amortization	Value	Accumulated Cost	Net Book Amortization	Value
Coil tubing Units	$ 3,358,700	$ 788,695	$2,570,005	$3,350,672	$601,898	$2,748,774
Nitrogen units	4,453,823	394,512	4,059,311	2,403,314	193,600	2,209,714
Flameless Equipment	1,449,503	28,334	1,421,169	-	-	-
Spare Equipment	95,929	1,515	94,414	-	-	-
Nitrogen Bulk Trailers	196,586	-	196,586	-	-	-
Coiled Tubing Inventory	286,817	28,412	258,405	133,448	-	133,488
Coil tubing stands	32,800	15,013	17,787	32,800	10,566	22,234
Shop Tools & equipment	88,144	29,080	59,064	66,654	18,425	48,229
Down hole tools	62,069	14,380	47,689	31,914	8,936	22,978
Tractors	360,501	92,873	267,628	165,000	46,425	118,575
Computer equipment	71,399	27,181	44,218	40,217	17,404	22,813
Office furniture	62,219	29,146	33,073	58,481	21,110	37,371
Leasehold improvements	30,732	5,909	24,823	7,632	2,289	5,343
	$10,549,222	$1,455,050	$9,094,172	$6,290,132	$920,653	$5,369,479

Included in property and equipment are assets financed by capital leases with a cost of $8,766,692 (2003 - $5,779,032) and a net book value of $7,483,111 (2003 - $5,000,364) as at December 31, 2004.

5. Intangible Assets

	Cost	Accumulated Amortization	Net Book Value
Patents	$ 75,596	$ 2,456	$ 73,140
License	145,833	8,333	137,500
	$221,429	$10,789	$210,640

6. Bank Loan

The bank loan is a demand operating facility bearing interest at 1.5% (2003 - 1.5%) above the prime lending rate and is due on demand. The effective rate at December 31, 2004 is 5.50%. The available limit on this facility is $1,500,000 (2003 - $1,200,000). The facility is secured by a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property.

7. Obligations Under Capital Lease

	2004	2003
Capital lease bearing interest at 9.79% per annum, payable in monthly installments of $60,632, maturing December 31, 2007	$1,884,829	$ —
Capital lease bearing interest at 10.73% per annum, payable in monthly installments of $1,582, maturing October 31, 2005	12,883	—
Capital lease bearing interest at 6.38% per annum, payable in monthly installments of $30,277, maturing August 24, 2009	1,395,448	—
Capital lease bearing interest at 9.44% per annum, payable in monthly installments of $3,611, maturing February 29, 2008	118,198	—
Capital lease bearing interest at 7.00% per annum, payable in monthly installments of $2,423, maturing January 15, 2007	56,206	—
Capital lease bearing interest at 7.00% per annum, payable in monthly installments of $2,552, maturing July 15, 2006	45,772	—
Capital lease bearing interest at 7.50% per annum, payable in monthly installments of $2,639, maturing July 1, 2007	72,000	—
Capital lease bearing interest at 7.75% per annum, payable in monthly installments of $2,639, maturing September 15, 2006	48,903	74,019
Capital lease bearing interest at 10.73% per annum, payable in monthly installments of $72,896, maturing October 31, 2005	—	1,457,661
Capital lease bearing interest at 7.75% per annum, payable in monthly installments of $2,654, maturing July 15, 2005	—	47,308
Capital lease bearing interest at 11.22% per annum, payable in monthly installments of $34,690, maturing July 31, 2006	—	939,496
	3,634,239	2,518,484
Less: current portion due within one year	(1,003,380)	(1,143,838)
	$ 2,630,859	$1,374,646

The minimum lease payments for the next 5 years are as follows:

2005	$1,265,831
2006	1,235,335
2007	1,155,143
2008	370,550
2009	151,487
	4,178,346
Less imputed interest	(544,107)
	$3,634,239

All loans above are blended monthly payments and all leases collateralized by specific property and equipment as disclosed in Note 4.

8. Subordinated Debentures

Pursuant to certain debenture agreements from shareholders the Company received $2,734,733 in 2002. Fees in the amount of $159,687 were incurred in raising the debentures in 2002, and are being amortized over the term of the debentures. On December 31, 2003, $1,707,817 of the debentures were converted into common shares (Note 10(d)) and as such, fees in the amount of $52,286 were charged to amortization expense for 2003 with the remaining $71,614 charged against share capital, for those debentures converted in the prior year.

The $1,026,916 that remain bear interest at 15% per annum, are unsecured, and have repayment requirements of $178,767 in 2006; $224,890 in 2007; $323,012 in 2008; $196,247 in 2009; and $104,000 in 2010, with interest payable on the outstanding balance from the date of the agreement to the date of the first repayment. The debentures can be redeemed anytime by the Company providing the holder is given 30 days notice before the redemption is to take place. Deferred fees in the amount of $6,051 have been charged to amortization expense for the year. The balance of this debenture was paid out subsequent to year end (Note 15(h)).

9. Due to Shareholders

Amounts due to shareholders are recorded at carrying value, bear interest at 10% per annum, are unsecured, and mature on April 1, 2006. Shareholders who converted their loans into common shares at December 31, 2003 agreed to waive the interest for 2003. As at December 31, 2003, $1,338,068 of the shareholders' loans had been converted into common shares of the Company (Note 10). The balance of the shareholder loan was paid out subsequent to year end. (Note 15(h)).

10. Share Capital

(a) Authorized

Unlimited number of Common shares

Unlimited number of Preferred shares, issuable in series

(b) Common shares issued and outstanding

	2004		2003	
	Number of Shares	**Amounts**	**Number of Shares**	**Amounts**
Balance, beginning of year	6,875,001	$ 3,671,305	4,838,650	$ 702,022
Issued pursuant to the acquisition of Pd&e (Note 3)	3,965,870	4,878,020	—	—
Exercise of broker warrants	9,375	11,250	—	—
Private placement (1)	3,247,300	4,059,125	—	—
Issued for cash	—	—	245,021	12
Conversion of subordinated debentures (Note 10(d))	—	—	1,004,792	1,707,817
Conversion of shareholders' loans (Note 10(d))	—	—	786,538	1,338,068
Deferred charges on conversion of subordinated debentures (Note 8)	—	—	—	(71,614)
Share issue costs, net of tax effect of $146,000	—	(300,528)	—	(5,000)
Balance, end of year	14,097,546	$12,319,172	6,875,001	$3,671,305

(1) On December 22, 2004, the Company completed a private placement of 3,247,300 units at a price of $1.25 per unit for gross proceeds of $4,059,125. Each unit consisted of one common share of the Company and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for a term of 24 months from the date of issue, at a price of $1.70 a share. In connection with the private placement, the agent was granted broker warrants to acquire up to 487,095 common shares of the Company, at an exercise price of $1.25 per share, for a term of 24 months from the date of issue, and a cash commission in the amount of $392,984. No value was allocated to the warrants as the value was determined not to be material.

(c) Share subscriptions

On November 8, 2004, holders of $1.2 million in convertible debentures acquired on the acquisition of Pd&e agreed to exercise their conversion option at the request of the Company. In order to effect the earlier conversion the conversion price was set at $1.25 per common share. The 960,000 related shares were issued January 13th, 2005. The debentures were to mature on January 31, 2006 and accrued interest at a rate of 7.5% per annum, and were convertible any time after August 1, 2004 at the option of the holder at $1.60 per common share. The amount converted has been recorded net of unamortized deferred finance expenses of $8,404. Due to the conversion inducement, additional value of $336,000 has been assigned to the share subscriptions receivable, and has been recorded as an adjustment to retained deficit.

(d) Conversion of subordinated debentures and shareholders' loans

On December 31, 2003, the Company converted a portion of its subordinated debentures and shareholders' loans into common shares. The conversion was at 2,059 common shares for every $3,500 of debt or loan outstanding.

(e) Stock Options

The Company has established a stock option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. On December 31, 2004 1.4 million common shares were reserved for issuance under the Plan. The options have a five year term and are exercisable pursuant to varying vesting periods as determined by the Board at the grant date except the options that were granted by Pd&e that vested on the acquisition date. The following table details the stock options issued and outstanding:

	Number of Shares	***Option Price per Share Range***	***Weighted Average Exercise Price***
Options outstanding, December 31, 2003	—	—	—
Issued on the acquisition of PD&E	168,750	$1.20	$1.20
Options outstanding, December 31, 2004	168,750	$1.20	$1.20
Options exercisable at December 31, 2004	168,750	$1.20	$1.20

The following table summarizes information about the stock options outstanding at December 31, 2004:

Options Outstanding	***Option Price***	***Weighted Average Exercise Price***	***Weighted Average Remaining Contractual Life***	***Number of Options Currently Exercisable***	***Weighted Average Exercise Price of Options Currently Exercisable***
168,750	$1.20	$1.20	3.61 years	168,750	$1.20

(f) Warrants

The Company has granted warrants to various investors and brokerage houses of the Company as follows:

	Number of Warrants	***Warrants Price per Share Range***	***Weighted Average Exercise Price***
December 31, 2003	—	—	—
Issued on the acquisition of PD&E	345,625	$1.20	$1.20
Warrants issued pursuant to private placement	2,110,745	$1.25 – $1.70	$1.60
Warrants outstanding, December 31, 2004	2,456,369	$1.20 - $1.70	$1.54
Warrants exercisable at December 31, 2004	2,456,369	$1.20 - $1.70	$1.54

The following table summarizes information about the warrants outstanding at December 31, 2004:

Warrants Outstanding	***Warrant Price***	***Weighted Average Exercise Price***	***Weighted Average Remaining Contractual Life***	***Number of Warrants Currently Exercisable***	***Weighted Average Exercise Price of Warrants Currently Exercisable***
345,625	$1.20	$1.20	0.90 years	345,625	$1.20
487,095 [(1)]	$1.25	$1.25	1.98 years	487,095	$1.25
1,623,650 [(1)]	$1.70	$1.70	1.98 years	1,623,650	$1.70

(1) Warrants are subject to a 4 month trading restriction up to April 22, 2005.

(g) Shares held in escrow

The following table summarizes information about the shares in escrow at December 31, 2004:

Issue date	***Shares held in Escrow***	***Release rate***	***Release Dates***
August 3, 2003 [(1)]	266,250	25%	May 29, 2005, November 29, 2005 and May 29, 2006
October 4, 2004	3,862,555	25%	May 4, 2005, November 4, 2005 and May 4, 2006
Shares in Escrow at December 31, 2004	4,128,805	25%	

(1) Shares placed in escrow pursuant to the initial public offering for Pd&e in November 2003.

11. Corporate Taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

Nature of temporary differences	*2004*	*2003*
Property and equipment	$ (911,000)	$ (973,000)
Non-capital losses	1,591,000	1,622,000
Share issue costs	209,000	28,000
	889,000	677,000
Valuation allowance	(539,000)	(677,000)
Future income tax asset	$ 350,000	$ —

The Company treats capital lease obligations as capital leases for accounting purposes, and operating leases for tax purposes.

The reconciliation of the Company's effective income tax rate for the years ended December 31, is as follows:

	2004	*2003*
Statutory tax rate, effective	34%	39%
Income taxes at the statutory rate	$ 283,000	$(126,000)
Rate change	87,000	—
Utilization of previously unrealized tax pools	(455,000)	—
Other permanent differences	19,000	64,000
Change in valuation allowance	(138,000)	62,000
Income tax recovery	$(204,000)	$ —

The Company has incurred cumulative non-capital losses for Canadian income tax purposes of approximately $4,660,000 (2003 - $4,146,000) (subject to confirmation by income tax authorities) which are available to reduce taxable income in future years. If not utilized, these losses will expire in the years ending December 31, 2010 to 2011. The future income tax benefit to the extent of $1,029,000 has been recognized in the financial statements.

12. Commitments

(a) The Company is obligated to rent its current premises from a non-related third parties, and maintains contractual agreements for office equipment and data licenses. The minimum annual payments due under the long-term operating leases including estimated operating costs are as follows:

2005 – $169,000
2006 – 122,000
2007 – 83,000

(b) The Company has entered into various vehicle lease agreements. The Company has the following annual commitments with regards to these agreements:

2005 – $131,000
2006 – 61,000
2007 – 35,000

(c) The Company has committed to a $125 per day royalty payment to an individual for the development of a specific unit of equipment. A royalty payment is required per unit (the Company currently owns two) for every day that that unit is in operation until 2023. The Company has paid $47,250 in 2004 to this individual.

(d) Pursuant to the patent purchased (Note 6), the Company has committed to paying a monthly royalty, for a twenty year duration, of $1,250 to the inventors of the patent for each specific unit put into use.

13. Related Party Transactions

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

(a) Issued 1,287,518 shares to directors and officers of the Company pursuant to the acquisition transaction (Note 3).

(b) Due from related party is from a company related by virtue of having common directors and officers. The amount is unsecured, non-interest bearing and has no specific terms of repayment.

(c) During the year, the Company received $225,000 (2003 - $50,000) for administrative services from the company acquired as discussed in Note 3 that is related by virtue of common management.

(d) During the year, the Company recorded $195,658 (2003 - $216,460) of interest expense to a shareholder of the Company of which $154,037 (2003 - $80,445) related to the subordinated debenture and $41,621 (2003 - $136,025) was related to the shareholder's loan.

(e) Paid legal fees in the amount of $49,842 (2003 - $17,249) for services provided by a firm of which a director of the Company is a partner. At year-end, $23,102 (2003 - $1,365) was payable for legal fees to this firm.

(f) Paid consulting fees of $10,841 (2003 - $Nil) to a company of which a director is the principle.

All related party transactions that are in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties. All other transactions not in the ordinary course of business operations have been measured at the carrying amount.

14. Financial Instruments

As disclosed in Note 2(e), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and fair value risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Interest rate risk management

The Company's short-term borrowings are based on floating rates and subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. Interest on fixed rate debt varies between 7% and 15%.

As at December 31, 2004, the increase or decrease in net income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $6,590 (2003 - $8,150). The related disclosures regarding the debt instruments are included in Note 6 of these consolidated financial statements.

Credit risk management

A significant portion of the Company's trade accounts receivable is from companies in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry. As at December 31, 2004, six (2003 – four) companies accounted for 45% (2003 – 49%) of the total accounts receivable. Of the revenue earned 50% (2003 – 44%) was earned from four (2003 – four) customers. All of the Company's cash is held at one institution and as a result of this and the nature of its operations, the Company has concentration of credit risk.

Fair value risk

The Company has not disclosed the fair value of its subordinated debentures and amounts owing to shareholders as these transactions are with related parties and there is no reliable fair value information readily available.

15. Subsequent Events

a) The TSX Venture Exchange approved the amended conversion price of $1.2 million in convertible debentures from $1.60 to $1.25. This results in similar fair value recognition of the Company's recent private placement and the conversion of debentures to common shares. On January 13, 2005 the Company issued 960,000 common shares to debenture holders subject to a hold period until May 13, 2005.

b) On January 21, 2005 the Company granted incentive stock options for the purchase of a total of 1,529,250 common shares of Leader to directors, officers and employees. The options are exercisable at a price of $1.50 per share, vest over a three-year period and have an expiry date of January 21, 2010.

   The Company, on March 17, 2005, granted an additional 104,000 stock options to employees of the Company. The options are exercisable at a price of $1.60 per share, vest over a three-year period and have an expiry date of March 17, 2010.

   There are now 1,802,000 options outstanding at an average exercise price of $1.48.

c) On January 25, 2005 the Company renegotiated a long term lease agreement which reduced the interest rate on $2.1 million of capital lease obligations from 9.79% to 5.927%. The lease term was extended from December 31, 2007 to January 25, 2009.

d) On January 31, 2005 the Company completed the second closing on its private placement of 1,352,700 Units for gross proceeds of $1,690,875. Each Unit consists of one common share and one half of a warrant, each whole warrant entitling the holder to subscribe for one common share for $1.70 for a 2 year period from closing. The Units will be subject to a hold period until May 31, 2005. The agent received a commission of $135,270 and an option to purchase 202,905 shares at $1.25 per share for a two year period from date of closing.

e) On February 10, 2005 the Company completed a TSX Venture Exchange short form offering with the issuance of 1,600,000 shares for gross proceeds of $2,000,000. The agent for this short form offering received a commission of $160,000 and an option to purchase 240,000 shares at $1.25 per share for a 2 year period from date of closing. 32,500 of the shares issued at closing will be subject to a hold period until June 11, 2005.

f) On February 18, 2005 the Company completed its third and final closing of the private placement with the issuance of 3,400,000 Units for gross proceeds of $4,250,000. As previously described, each Unit consists of one common share and one half of a warrant, each whole warrant entitling the holder to subscribe for one common share for $1.70 for a 2 year period from closing. The Units will be subject to a hold period until June 19, 2005. The agent for this offering received a commission of $340,000 and an option to purchase 510,000 Units at $1.25 per Unit for a two year period from date of closing.

g) Broker warrants totalling 40,100 were exercised between year end and the date of the audit report. The units, which carried an exercise price of $1.20 per unit, generated $48,120 for the company which was recorded as share capital.

h) On March 25, 2005 the company retired debt associated with the subordinated debentures and shareholder loans. Total payment, including interest of $440,231, came to $1,883,358.

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